

LONG-TERM PERFORMANCE INCENTIVE PLAN

SECTION 1: PLAN PURPOSE

- 1.1 The purpose of this Long-Term Performance Incentive Plan (the "Plan") is to provide an additional incentive compensation opportunity for certain key employees of Blue Cross Blue Shield of Maryland (the "Company"). Such compensation opportunity will:
- a. Ensure that the Company has a competitive compensation package to assist in the retention and recruitment of highly competent executives.
 - b. Recognize, motivate, and reward key employees for the development and execution of long-term strategy and policy.
 - c. Provide executives with an ongoing "stake" in the future of the Company (i.e., tie them to corporate long-term success).
 - d. Reinforce long-term measures for corporate success.
 - e. Provide a deferred compensation vehicle.

SECTION 2: DEFINITIONS

For purposes of this Plan, the following terms are defined.

- 2.1 **Award Agreement:** The written notice provided to a Participant specifying the number of units awarded for a Program and other conditions of the award, if any.
- 2.2 **Board:** The Board of Directors of the Company.
- 2.3 **Cause:** Used in connection with the termination of a Participant's Service means a termination of such Service with the Company because of (i) a felony conviction of such Participant; (ii) the commission by such Participant of an act of fraud or embezzlement against the Company; (iii) willful misconduct (materially detrimental to the Company) or gross negligence materially detrimental to the Company; or (iv) the Participant's continued failure to implement reasonable requests or directions arising from actions of the Board after thirty (30) days written notice to the Participant; (v) failure to put forth a good-faith effort in the performance of job duties.

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- 2.4 **Change of Control:** Means (i) a merger, consolidation, sale of assets, or similar transaction after which members of the company's Board immediately prior thereto cease to be a majority; or (ii) the sale of more than 50 percent of the Company's assets to a company or entity not more than 50 percent owned by Blue Cross Blue Shield of Maryland.
- 2.5 **Committee:** The committee designated by the Board of Directors of the Company to administer the Plan pursuant to Section 4.
- 2.6 **Company:** Blue Cross Blue Shield of Maryland and its subsidiaries, successors, and assigns.
- 2.7 **Deferred Amount:** The cumulative mandatorily deferred amounts and accumulated interest on amounts deferred, as determined in accordance with the terms of the Plan.
- 2.8 **Disability:** Means that a Participant is unable substantially to discharge his responsibilities to the Company by reason of physical or mental illness or incapacity, whether arising out of sickness, accident or otherwise, and shall be evidenced by the written determination of a qualified medical doctor selected by the Company, which determination shall specify the date upon which such disability commenced and that it has continued uninterrupted for at least 180 days.
- 2.9 **Fiscal Year:** The 12-month period used as the annual accounting period by the Company.
- 2.10 **Participant:** An executive of the Company selected for participation in the Plan by the Committee in accordance with the provisions of Section 5.
- 2.11 **Performance Period:** A period of two (2) or three (3), as determined by the Committee on the date of grant, consecutive Fiscal Years, commencing on the first day of the first Fiscal Year of each Program, over which the Performance Units are to be valued.
- 2.12 **Performance Period Targets:** The performance goals fixed by the Committee for a Performance Period.
- 2.13 **Performance Unit:** Awards are granted in terms of Performance Units. Each unit, which shall have no initial value, shall be valued and earned pursuant to the Plan.
- 2.14 **Performance Unit Award:** The aggregate number of Performance Units awarded to a Participant for a Performance Period.
- 2.15 **Performance Unit Valuation Schedule:** A schedule containing targeted levels of Plan Performance, and value of a Performance Unit for each designated level of Plan Performance at and on either side of the targeted Plan Performance level. Such values shall be set by the Committee at the inception of a performance period. The value of each unit shall be determined by selecting the unit value from the schedule

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that is commensurate with actual Plan Performance at the end of the performance period. Performance measures, in addition to or in place of Plan Performance, can be adopted by the Committee and a similar schedule to that of Plan Performance developed and set by the Committee.

- 2.16 **Plan:** This Long-Term Performance Incentive Plan, as originally adopted, or supplemented, as so amended or supplemented.
- 2.17 **Plan Performance:** As defined by the Committee at the beginning of a Performance Period. Initially, the Plan Performance shall be: 1) Excess Net Income as a percent of GAAP Surplus (as reported in the Company's financial statements), and 2) Contract Growth Rate. Excess Net Income is defined as after tax earnings (determined without regard to any awards under this Plan and including, at the Committee's discretion, capital gains and losses and extraordinary profit or loss from the sale of assets) in excess of a Threshold Surplus Rate determined for each year during the Performance Period. The percent of GAAP Surplus shall be determined by adding the Excess Net Income for each year of the Performance Period and dividing by the sum of the beginning of year GAAP Surplus for each year of the Performance Period. Contract Growth Rate shall be determined by the number of contracts (i.e., a policy or contract covering an individual and, if applicable, his or her dependents) covered by the Company (including HMO, ASO, and network lease contracts) at the end of the Performance Period compared to the beginning of the Performance Period and calculating the compound annual growth rate.
- 2.18 **Program:** One Performance Period with its respective Performance Unit Awards.
- 2.19 **Service:** Means any period during which a person provides services and is employed by the Company, including all periods during which such person is a common law employee of and/or provides services as a director to any of such entities. A person shall be deemed to have terminated service when the person completely ceases to be employed by and provide services to the Company.
- 2.20 **Threshold Surplus Rate:** The 10-year Treasury Bond interest rate, as reported in the *Wall Street Journal* as of the end of the first week in each year of the Performance Period multiplied by the average Beta Rate for a group of Medical Services Industry companies, as reported in *Value Line* as of the end of the first week in each year of the Performance Period.

SECTION 3: EFFECTIVE DATES

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- 3.1 The Plan shall be effective beginning with the Performance Period commencing January 1, 1995.
- 3.2 The Plan shall terminate when the Board so resolves. Notwithstanding the foregoing, all awards made under the Plan prior to such date shall

remain in effect until such awards have been satisfied or terminated in accordance with the terms and provisions of the Plan.

SECTION 4: ADMINISTRATION

- 4.1 The Plan shall be administered by a Committee consisting of three or more members of the Board who are not employees of the Company. The members of the Committee shall be appointed by, and may be changed from time to time at the discretion of, the Board.
- 4.2 The Committee shall administer the Plan in accordance with any rules, policies, or procedures which it deems appropriate and shall, subject to Section 4.7, have the full responsibility and complete discretionary authority to:
- a. Conclusively construe, interpret, and implement the provisions of the Plan and related documents and agreements, and to decide all questions arising on its applications;
 - b. Determine each year which of those employees recommended for an award in accordance with the Plan shall be granted an award;
 - c. Determine the amount, size, and terms of awards consistent with the provisions of the Plan;
 - d. Determine the time when awards will be granted;
 - e. Establish the target value of Performance Units;
 - f. Establish Plan Performance Measures, Targets and the Performance Unit Valuation Schedule and make such adjustments therein as may be appropriate under existing conditions, in accordance with the provisions of this Plan;
 - g. Prescribe, amend, and rescind rules and regulations relating to the Plan; and
 - h. Make all other determinations necessary and advisable for the administration of this Plan.
- 4.3 The Board, Committee or the Company shall not, without the consent of the Participants, change the terms and conditions of any Performance Unit Award except to the extent, if any, provided in such Award Agreement and under this Plan.
- 4.4 The Committee may authorize one or more of their members or any officer of the Company to execute and deliver documents on behalf of the Committee.
- 4.5 The determinations of the Board and the Committee on all matters relating to the Plan shall be conclusive and binding on all persons.

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- 4.6 No member of the Board or Committee shall be liable for any action or determination made in accordance with applicable law with respect to the Plan or any award thereunder. In the event a claim is made against a Board or Committee Member for actions taken in connection with the Plan, the Company shall indemnify the Board or Committee Member as provided by the Company By-Laws.
- 4.7 Notwithstanding anything in this Plan to the contrary, the following shall become effective only upon ratification by the Board:
- a. The selection by the Committee of the Participants in each Program and each such Participant's Performance Unit Award for such Program;
 - b. The determination of each Performance Period Target;
 - c. The determination of each Performance Unit Valuation Schedule;
 - d. The determination at the end of each Performance Period of the value of each Performance Unit; and
 - e. The cancellation or reduction of an award by the Committee pursuant to Section 7.4.

SECTION 5: PARTICIPATION

- 5.1 Prior to the commencement of each Performance Period or as soon thereafter as possible, employees of the company will be recommended for participation in the Plan in accordance with the procedures set forth in the Committee from among executives who are members of a select group of management of the Company. The Participants shall be selected by the Committee from among those recommended employees who, in the opinion of the Committee from among those recommended employees who, in the opinion of the Committee, are in a position to make significant contributions to the growth and long-term success of the Company.
- 5.2 The Performance Unit Awards for a Program shall be determined each year by the Committee. Notification of Plan participation, the Performance Unit Award, and such additional provisions as the Committee in its discretion deems necessary and desirable shall be communicated to the Participant at the inception of each Performance Period by a written Award Agreement. Any such Award shall be subject to all of the terms and provisions of the plan and applicable Award Agreement.
- 5.3 If the Committee determines that an employee becomes eligible to participate in the Plan, or that a Participant ceases to be eligible, then the Committee shall have the discretion to provide that the individual shall be eligible for a prorated portion of the award which would have been payable under the Plan if the individual had been a Participant for the entire Performance Period.

- 5.4 The granting of a Performance Unit Award in a given year shall not give any employee the right to receive awards in subsequent years nor preclude any such employee from receiving awards in subsequent years.

SECTION 6: PERFORMANCE UNIT AWARD GRANTS

- 6.1 Each Program shall be subject to the limitations and terms provided in the Plan. A new Program shall commence on the first anniversary date of the preceding Program. The Committee shall grant to each Participant selected to participate in a Program a Performance Unit Award. The number of Performance Units granted to each Participant in any Program shall have such value as shall be established by the Committee at the inception of each Performance Period in the Performance Unit Valuation Schedule. Grants shall be made prior to the start of a Performance Period or as soon thereafter as possible.
- 6.2 A Performance Unit Valuation Schedule for the Performance Period shall be determined by the Committee and approved by the Board at the inception of each Performance Period. Each Participant shall receive the applicable Performance Unit Valuation Schedule at the time they receive their Award Agreement.

SECTION 7: VALUATION AND PAYMENT OF UNIT AWARDS

- 7.1 Except as otherwise provided in Section 7.5 and 10 hereof, no Participant shall be vested nor payment of Performance Unit Awards be made prior to the end of a Performance Period.
- 7.2 Upon the completion of a Performance Period, the value of each Performance Unit shall be determined based upon the Performance Unit Valuation Schedule approved for that Program.
- 7.3 The Award Amount Earned by each Participant shall equal the determined value of the Performance Unit, according to the Performance Unit Valuation Schedule, multiplied by the number of Performance Units awarded to the Participant for the Performance Period.
- 7.4 Notwithstanding 7.3, the Committee or the Board has the right to cancel or reduce any award at the end of a Performance Period in the event that Company performance with respect to key measures, other than Plan Performance is, in the judgment of the Committee, significantly less than contained in the operating plans and budgets approved by the Board during the Performance Period (e.g., if the results of one or more of the following is significantly inconsistent with the plan presented to the Board; in the judgment of the Committee including but not limited to: reserve level, quality of the investment portfolio, and subsidiary profitability).

- 7.5 If a Participant terminates employment, other than as a result of death, payment shall be made in accordance with Section 10. For termination as a result of death, payment shall occur as soon as practicable after the end of the first Performance Period following the Participant's death.

SECTION 8: PAYMENT OF AWARDS

- 8.1 Performance Awards shall be payable as follows:
- a. Seventy percent of the Award Amount Earned by each Participant shall become payable in a cash lump sum as soon as practicable after the end of the Performance Period and the completion of the audits necessary to determine all performance results over the Performance Period.
 - b. Thirty percent of the Award Amount Earned shall be mandatorily deferred until the Participant's employment with the Company terminates. Mandatorily Deferred Amounts shall earn interest as described in Section 9.

SECTION 9: INTEREST ON MANDATORILY DEFERRED AMOUNTS

- 9.1 Amounts which are mandatorily deferred, as described under Section 8, shall earn interest each year according to the annual interest rate of the five year Guaranteed Investment Contract Index as published in the Wall Street Journal. The rate applied for the year shall be determined as of the end of the first week of the year to which the rate is to be applied to the Deferred Amount. In the event that the Company issues shares of common stock pursuant to an initial public offering, then the annual interest rate shall be based upon the Company's total return to shareholders (stock price appreciation plus dividends) for the applicable year. The calculated interest amount shall be credited to the Participant's Deferred Amount as soon as practicable after the end of the year.
- 9.2 The Committee shall annually report to Participants their Deferred Amounts in accordance with Section 11.

SECTION 10: CHANGES OF EMPLOYMENT STATUS

- 10.1 Regardless of Program performance and the provisions of Section 5.3, no Participant shall be eligible for the payment of any Performance Unit Award for a Performance Period unless participation in the Program has been for at least 12 consecutive months.
- 10.2 If a Participant's Service with the Company terminates before the end of a Performance Period as a result of death or Disability, the Participant shall be entitled to a pro rata portion of the Performance

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Unit Awards for Performance Periods then in progress. In the case of death, the pro rata portion shall be determined as if the target value of a Performance Unit is exactly achieved for any participating Programs that will not end within 12 months of the Participant's death.

- 10.3 If a Participant is age 55 or older and Service with the Company is terminated for any reason, other than for Cause, the Participant shall be entitled to a pro rata portion of the Performance Unit Awards for participating Performance Periods then in progress.
- 10.4 If a participant is under age 55 and Service with the Company is voluntarily terminated by the Participant or terminated at the request of the Company, other than for Cause, any outstanding Performance Unit Awards for Performance Periods then in progress shall be canceled, except as the Board in its sole and absolute discretion may otherwise determine.
- 10.5 If Service with the Company is terminated by the Company for Cause, the right of the Participant to payment of any Deferred Amounts, including interest thereon, shall be forfeited and any outstanding Performance Unit Awards for Performance Periods then in progress shall be canceled, except as the Board in its sole and absolute discretion may otherwise determine.
- 10.6 If a Participant's Service with the Company terminates for any reason other than Cause, then any amounts voluntarily deferred under this Plan and any mandatorily deferred amounts not forfeited under this Section 10 shall be paid to the Participant as soon as practicable after termination, except in the case of retirement after reaching age 55 where payments may be made in installments as provided in Section 11.

SECTION 11: DEFERRAL OF PAYMENTS

- 11.1 All Deferred Amounts will be subject to such terms and conditions as the Committee may from time to time establish.
- 11.2 A Participant shall elect at the time of deferral to receive payment of Deferred Amounts and any interest accrued therein either before or after retirement in a lump sum or in installments, except as provided in Section 10 for termination before age 55 or Cause. Upon the death of a Participant, payment of any amounts hereunder shall be made to the Participant's designated beneficiary or estate (in the absence of a designated beneficiary) in the manner elected by the Participant or (in the event the Participant made no election in the manner determined by the committee, in accordance with State law.
- 11.3 Unless otherwise determined by the Committee or as specified in 11.5, interest will accrue on the Deferred Amount in accordance with the provisions of Section 9.1.

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- 11.5 Unless otherwise agreed by the Company and the Participant as the Committee shall determine, payment of Deferred Amounts will be made in cash in accordance with Sections 10.6 and 11.2. If payment in installments is elected, any such unpaid installments will accrue interest over the installment payment period at the Guaranteed Investment Contract Index rate as determined in accordance with Section 9.1.

SECTION 12: CHANGE OF CONTROL

- 12.1 In the event of a Change of Control, all Performance Units shall be considered as earned and their value based on the greater of: (1) Company performance as of the date of Change of Control, or (2) the Target Value of each Performance Unit.
- 12.2 All Deferred Amounts shall be paid to Participants as of the date of Change of Control.

SECTION 13: AMENDMENT OR DISCONTINUANCE OF THE PLAN

- 13.1 The Board may from time to time suspend or discontinue the Plan or revise or amend it in any respect whatsoever, except as otherwise provided specifically in this Plan.
- 13.2 With the consent of the Participant and subject to the terms and conditions of the Plan, the Committee may amend outstanding plan Award Agreements with respect to a Participant including, without limitation, any amendment which would (i) accelerate the time or times at which a Performance Unit Award may be paid or (ii) extend the scheduled expiration date of a Performance Unit Award.
- 13.3 Without the consent of any Participant, the Committee may, in its discretion, make modifications in the Performance Unit Valuation Schedule of any outstanding Performance Units to reflect extraordinary transactions or occurrences affecting the Company or any subsidiary or participating affiliate, including by way of illustration and not of limitation, the capital reorganization of the Company, the divestiture of a significant subsidiary, the acquisition or discontinuance of a material business or product line, changes in accounting procedures/policies, or governmental changes in the financing of health care delivery not considered in developing the Performance Period Target.

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SECTION 14: MISCELLANEOUS PROVISIONS

- 14.1 No employee or other person shall have any claim or right to be granted an Award under the Plan. The adoption of the Plan shall not constitute a contract between the Company and a Participant. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company.
- 14.2 No rights or interests under the Plan shall be assignable or transferable (including pursuant to a pledge or security interest) other than by will or by the laws of descent and distribution.
- 14.3 The Company shall have the right to deduct from all payments under this Plan any federal, state and/or local taxes required by law to be withheld with respect to such payments.
- 14.4 The Committee's determinations under the Plan (including without limitation, determinations of the person or persons to receive awards, the form, amount and timing of such awards, the terms and provisions of such awards and the agreements evidencing same, and the establishment of Performance Targets) need not be uniform and may be made selectively among persons who receive, or are eligible to receive, awards under the Plan, whether or not such persons are similarly situated. Such determinations shall be based upon such factors as are legitimately within the Plan's parameters and the Committee's discretion, and shall not take in to account any Participant's protected status under federal, state, and local laws governing equal employment opportunity.
- 14.5 The amount of any compensation deemed to be received by a Participant will not constitute "earnings" with respect to which any other employee benefits of the Participant are determined including without limitation benefits under any pension, retirement, profit sharing, disability, life insurance, or salary continuation plan.
- 14.6 The Company intends that this Plan come within the various exemptions under the Employee Retirement Income Security Act of 1974 ("ERISA") for a deferred compensation plan which is unfunded and which only covers a select group of management, and this Plan shall terminate automatically if it fails to come within such expectations.
- 14.7 As the context of the Plan may require, the singular may be read as the plural and the plural as the singular.
- 14.8 The captions to the sections of this Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.
- 14.9 This Plan shall be governed and construed in accordance with the applicable laws of the State of Maryland to the extent not preempted by ERISA.

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14.10 Any notice or filing required or permitted to be given to a Participant of the Plan shall be sufficient if in writing and sent through the U.S. Postal Service, certified mail, return receipt requested, postage prepaid, to the Participant or Participant's legal representatives at the Participant's last known mailing address.

14.11 All benefits payable under the terms of the Plan shall be paid by the Company from its general assets. No person shall have any right or interest or claim whatsoever to the payment of a benefit under the Plan from any person whomsoever other than the Company, and no person shall have any right or interest whatsoever to the payment of a benefit under this Plan which is superior in any manner to the right of any other general and unsecured creditor of the Company.

14.12 The Committee shall establish and maintain a claims procedure under the Plan that complies with the requirements of Section 503 of ERISA. The consideration of any claims and the review of claim denials under the Plan shall be made in accordance with such procedures.

BLUE CROSS BLUE SHIELD OF MARYLAND

ATTEST:

By:

H A Parrot
Senior Vice President, General
Counsel and Secretary

By:

J. Wentz
Chairman of the Board

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